
Financial Section

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
the Members of City Council
City of Salisbury, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Salisbury, Inc., is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salisbury, North Carolina, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and for the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 27, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (pages 23 - 32) and the required supplementary information (pages 67 - 68) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salisbury, North Carolina's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As described in Note 6 to the financial statements, during the year ended June 30, 2004 City of Salisbury, North Carolina changed its method of accounting for the recognition of local option sales tax which is collected and distributed by the State of North Carolina.

McGladrey & Pullen, LLP

Greensboro, North Carolina
August 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Salisbury, North Carolina, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Salisbury for the fiscal year ended June 30, 2004. We encourage readers to read the information presented here in conjunction with the transmittal letter which begins on page 4 and the City's financial statements, which begin on page 33.

FINANCIAL HIGHLIGHTS

- The assets of the City of Salisbury's governmental and business-type activities exceeded its liabilities at the close of the fiscal year by \$112,197,875 (*net assets*).
- The government's total net assets increased by \$2,275,984. This increase is primarily attributable to a decrease in total liabilities of \$3,364,011, including a \$1,470,778 decrease in long-term debt.
- As of the close of the current fiscal year, the City of Salisbury's governmental funds reported combined ending fund balances of \$5,631,039, an increase of \$237,746 in comparison with the prior year. Approximately 53 percent of this total amount, or \$2,956,660, is available in the General Fund for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the unreserved fund balance for the General Fund of \$2,956,660 was 10.7 percent of total general fund expenditures for the fiscal year.
- The City of Salisbury's total debt decreased by \$1,470,779 (2.42%) during the current fiscal year. The City did issue almost \$2 million of new installment purchase debt for the purpose of purchasing telecommunications equipment.
- The City's bond ratings of "A1" by Moody's Investors Service and "A+" by Standard and Poor's were reaffirmed in July 2003. Also, the most recent bond rating from Fitch Ratings was an "A+".

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Salisbury's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Salisbury.

BASIC FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the City.

The first two statements (Exhibits A-1 and A-2) in the basic financial statements are the *Government-wide Financial Statements*. They provide both short and long-term information about the City's overall financial status, in a manner similar to a private-sector business.

The next statements (Exhibits A-3 through A-11) are *Fund Financial Statements*. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the proprietary fund statements; and 3) the fiduciary fund statements.

The governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains available for future spending. The proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system and the transit system. The fiduciary fund statements provide information about the financial relationships – like the pension trust for the City's law enforcement officers – in which the City acts solely as a trustee for the benefit of others, to whom the resources in question belong.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) a component unit. The governmental activities include most of the City's basic services such as public safety, parks and recreation, environmental protection, community and economic development, and general administration. Property taxes, sales taxes, and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges fees to customers to help cover all or most of the cost of the services provided. These include the water and sewer and mass transit services offered by the City of Salisbury. The final category is the component unit. The City's component unit, Downtown Salisbury, Inc., is important to the City because it serves the interests of merchants

and property owners in the downtown area. Although legally separate from the City, Downtown Salisbury Inc.'s revenue consists largely of a municipal service district tax levy and a supplemental appropriation from the City, both of which must be approved by City Council.

FUND FINANCIAL STATEMENTS

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Salisbury, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Salisbury can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Salisbury adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the various departments of the City, the management of the City, and the decisions of City Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The City of Salisbury has two different kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Salisbury uses enterprise funds to account for its water and sewer activity and for its mass transit operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate

and allocate costs internally among the functions of the City of Salisbury. The City uses internal service funds to account for two activities – its self-insured health insurance and worker compensation insurance. Because most of the costs of these operations are attributable to governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds – The City is the trustee, or fiduciary for its Law Enforcement Officers’ Special Separation Allowance, its Boards and Commissions, the Municipal Service District, and the Town of East Spencer’s water and sewer operations. All of the City’s fiduciary activities are reported in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 42 and 43. We excluded these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 44-64 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Salisbury’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 67-68 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended June 30, 2003 were the beginning of a new era in financial reporting for the City of Salisbury and many other units of government across the United States. Prior to that year, the City of Salisbury maintained the governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Salisbury. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model were mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Salisbury’s financial reports as well as those of many other units of government. While the City was required to implement these changes for the fiscal year ended June 30, 2003, other units were required to implement Statement 34 in 2002, and any remaining governments will be implementing in 2004.

THE CITY OF SALISBURY'S NET ASSETS

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 9,137,721	\$ 7,950,263	\$ 15,575,434	\$ 22,296,891	\$ 24,713,155	\$ 30,247,154
Capital assets	37,209,414	36,223,384	115,232,166	111,597,377	152,441,580	147,820,761
Total assets	\$ 46,347,135	\$ 44,173,647	\$ 130,807,600	\$ 133,894,268	\$ 177,154,735	\$ 178,067,915
Long-term liabilities outstanding	\$ 8,511,837	\$ 6,741,960	\$ 50,901,980	\$ 54,142,635	\$ 59,413,817	\$ 60,884,595
Other liabilities	2,760,306	1,922,702	2,782,737	5,513,574	5,543,043	7,436,276
Total liabilities	\$ 11,272,143	\$ 8,664,662	\$ 53,684,717	\$ 59,656,209	\$ 64,956,860	\$ 68,320,871
Net assets:						
Invested in capital assets, net of related debt	\$ 30,380,102	\$ 30,737,822	\$ 62,840,912	\$ 54,424,878	\$ 93,221,014	\$ 85,162,700
Restricted	-	-	9,509,125	14,031,729	9,509,125	14,031,729
Unrestricted	4,694,890	4,771,163	4,772,846	5,781,452	9,467,736	10,552,615
Total net assets	\$ 35,074,992	\$ 35,508,985	\$ 77,122,883	\$ 74,238,059	\$ 112,197,875	\$ 109,747,044
Total liabilities and net assets	\$ 46,347,135	\$ 44,173,647	\$ 130,807,600	\$ 133,894,268	\$ 177,154,735	\$ 178,067,915

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Salisbury exceeded liabilities by \$112,197,875 as of June 30, 2004. The City's net assets increased by \$2,275,984 for the fiscal year ended June 30, 2004.

The largest portion of the City's net assets (83.1%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, equipment, water and sewer treatment facilities, and water and sewer lines), less any related debt still outstanding that was issued to acquire or build those items. The City of Salisbury uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Salisbury's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the City of Salisbury's net assets (8.5%) represents resources that are subject to restrictions on how they may be used, primarily for water and sewer capital projects. The remaining balance of \$9,467,736 is unrestricted.

Several particular aspects of the City's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.78%, which is comparable to the statewide average of 97.10%.
- Increased sales tax revenues of \$850,362 due primarily to the adoption of an additional one-half cent tax.
- Increased property tax revenues of \$1,320,188 due primarily to economic growth and annexation.
- Continued low cost of debt due to the City's high bond rating.

CITY OF SALISBURY CHANGES IN NET ASSETS

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 5,044,562	\$ 4,660,367	\$ 14,548,732	\$ 14,367,853	\$ 19,593,294	\$ 19,028,220
Operating grants and contributions	1,632,833	3,187,615	372,506	372,724	2,005,339	3,560,339
Capital grants and contributions	605,851	4,990,317	2,821,330	9,927,332	3,427,181	14,917,649
General revenues:					-	-
Property taxes	12,608,225	11,220,630	-	-	12,608,225	11,220,630
Other taxes	4,232,748	3,382,414	-	-	4,232,748	3,382,414
Intergovernmental revenue	2,822,659	2,092,831	-	-	2,822,659	2,092,831
Other	359,275	279,695	1,823,513	1,315,857	2,182,788	1,595,552
Total revenues	\$ 27,306,153	\$ 29,813,869	\$ 19,566,081	\$ 25,983,766	\$ 46,872,234	\$ 55,797,635
Expenses:						
General government	\$ 5,887,422	\$ 5,975,738	\$ -	\$ -	\$ 5,887,422	\$ 5,975,738
Public safety	10,111,491	9,739,181	-	-	10,111,491	9,739,181
Transportation	4,869,631	4,313,179	-	-	4,869,631	4,313,179
Environmental protection	1,619,517	1,469,017	-	-	1,619,517	1,469,017
Culture and recreation	2,579,491	2,392,991	-	-	2,579,491	2,392,991
Community and economic development	2,386,640	2,013,771	-	-	2,386,640	2,013,771
Education	42,342	42,342	-	-	42,342	42,342
Interest on long-term debt	258,177	251,693	-	-	258,177	251,693
Water and sewer	-	-	16,179,987	15,484,513	16,179,987	15,484,513
Mass transit	-	-	661,552	629,268	661,552	629,268
Total expenses	\$ 27,754,711	\$ 26,197,912	\$ 16,841,539	\$ 16,113,781	\$ 44,596,250	\$ 42,311,693
Change in net assets before transfers	\$ (448,558)	\$ 3,615,957	\$ 2,724,542	\$ 9,869,985	\$ 2,275,984	\$ 13,485,942
Transfers	(160,282)	(160,282)	160,282	160,282	-	-
Change in net assets	\$ (608,840)	\$ 3,455,675	\$ 2,884,824	\$ 10,030,267	\$ 2,275,984	\$ 13,485,942
Net assets, July 1	35,683,832	32,228,157	74,238,059	64,207,792	109,921,891	96,435,949
Net assets, June 30	\$ 35,074,992	\$ 35,683,832	\$ 77,122,883	\$ 74,238,059	\$ 112,197,875	\$ 109,921,891

Governmental activities - Governmental activities decreased the City's net assets by \$608,840. This decrease is due primarily to recording \$2,764,589 in depreciation expense, a non-cash, non-budget expense item.

Business-type activities - Business-type activities increased the City of Salisbury's net assets by \$2,884,824. This increase is primarily due to \$2,821,330 capital contributions received from the City's partners in its various capital projects. These contributions were used to construct capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Salisbury uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Salisbury's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Salisbury's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Salisbury. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,956,660, while total fund balance for the General Fund reached \$5,809,933. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10.7 percent of total General Fund expenditures, while total fund balance represents 21 percent of that same amount.

At June 30, 2004, the governmental funds of the City of Salisbury reported a combined fund balance of \$5,631,039, a \$237,746 or 4.2 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Special Revenue Funds.

General Fund Budgetary Highlights - During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Total amendments to the General Fund increased revenues and expenditures by \$584,338. The difference between the original budget and the final amended budget can be briefly summarized as follows:

- Funds were appropriated for the receipt of a \$244,686 grant from the Federal Emergency Management Agency to purchase fire equipment.
- Funds were appropriated for various donations totaling \$289,752.
- Funds were appropriated for the receipt of \$41,225 from various grants that are restricted for use for the Police Department.

Revenues were less than the budgeted amounts primarily because some appropriated grant funds and donations had not been earned and therefore, not received by June 30, 2004. The City had not earned these funds because the related expenditures had not been made. Therefore, these unearned grants had no effect on the General Fund's change in fund balance, which increased by \$555,597 during the fiscal year ended June 30, 2004.

Proprietary Funds

The City of Salisbury's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$4,653,397, and those for the Mass Transit Fund amounted to \$119,449. The total growth in net assets for the Water and Sewer Fund was \$2,943,536. The net assets of the Mass Transit Fund decreased by \$58,172. Other factors

concerning the finances of these two funds have already been addressed in the discussion of the City of Salisbury's business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The City of Salisbury's investment in capital assets for its governmental and business-type activities as of June 30, 2004 totals \$152,441,580 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, vehicles, water and sewer treatment facilities, and water and sewer lines. The City's capital assets in the governmental and business-type activities increased 2.7 percent and 3.3 percent, respectively.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction of water and sewer capital assets of \$6,151,120. The City completed several large projects including new water lines to southern Rowan County and the Highway 70 corridor in the western part of the City. Also, the City is nearing completion of a new water treatment plant.
- Purchase of new emergency telecommunications equipment for \$2,966,089.
- Purchase of various vehicles, including eighteen police cars, totaling \$756,046.

CITY OF SALISBURY'S CAPITAL ASSETS

(net of depreciation)

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 3,157,445	\$ 3,157,445	\$ 2,072,067	\$ 2,072,067	\$ 5,229,512	\$ 5,229,512
Construction in progress	109,408	-	10,638,635	30,335,894	10,748,043	30,335,894
Buildings	1,366,360	1,432,457	2,061,602	2,265,306	3,427,962	3,697,763
Improvements other than buildings	7,525,086	7,498,109			7,525,086	7,498,109
Equipment	2,501,638	294,848	746,771	349,084	3,248,409	643,932
Vehicles and motorized equipment	1,470,488	1,852,926	752,234	751,253	2,222,722	2,604,179
Infrastructure	21,078,989	21,987,599	98,960,857	75,823,773	120,039,846	97,811,372
Total	\$ 37,209,414	\$ 36,223,384	\$ 115,232,166	\$ 111,597,377	\$ 152,441,580	\$ 147,820,761

Additional information on the City's capital assets can be found in note 3.A.4. of the Basic Financial Statements.

Long-term Debt - As of June 30, 2004, the City of Salisbury had total long-term debt outstanding of \$58,327,292. Of this, \$15,750,537 is debt backed by the full faith and credit of the City and \$20,972,259 represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

CITY OF SALISBURY'S OUTSTANDING DEBT
(not including compensated absences)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 2,465,000	\$ 2,645,000	\$13,285,537	\$14,805,000	\$15,750,537	\$17,450,000
Revenue bonds	-	-	20,972,259	21,541,269	20,972,259	21,541,269
State bond loans	-	-	13,302,578	14,185,084	13,302,578	14,185,084
Capital leases	-	-	3,341,606	3,611,282	3,341,606	3,611,282
Installment purchases	4,364,312	2,840,562	-	-	4,364,312	2,840,562
HUD Section 108 loan	596,000	221,000	-	-	596,000	221,000
Total	\$ 7,425,312	\$ 5,706,562	\$50,901,980	\$54,142,635	\$58,327,292	\$59,849,197

The City of Salisbury's total debt decreased by \$1,521,905 (2.54%) during the past fiscal year despite issuing \$1,990,500 in installment purchase financing to purchase real estate.

As mentioned in the financial highlights section of this document, the City of Salisbury maintained its A1 bond rating from Moody's Investor Service and A+ rating from Standard and Poor's Corporation and Fitch Ratings. These bond ratings are a clear indication of the sound financial condition of the City of Salisbury. This achievement is a primary factor in keeping interest costs low on the City's outstanding debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Salisbury is \$152,707,263.

During the fiscal year ended June 30, 2004, the City refinanced some of its existing debt to take advantage of historically low interest rates. On August 12, 2003, the City refunded \$11.9 million of Water and Sewer debt with a \$12.1 million general obligation issue. Total debt payments will be reduced by \$352,806.

Additional information regarding the City of Salisbury's long-term debt can be found in Note 3.B.5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following key economic indicators reflect the growth and prosperity of the City.

- The unemployment rate for June 2004 in Rowan County was 8.0%, which is an increase from a rate of 6.4% a year ago. This average unemployment rate for the State of North Carolina was 5.5% per year. In the fall of 2003, a local textile manufacturer closed and the unemployment rates for Rowan County increased drastically. The County experienced a 10.2% average unemployment rate for the year, but the employment outlook in Rowan County has improved recently. The unemployment rate has continued to drop since June to 5.6% in August 2004. Employees who lost their jobs when the textile plant closed are finding new jobs and Rowan County's largest employer, Freightliner, has recently hired 1,000 new employees.

- The occupancy rates for first floor office and retail space in the City's downtown area is approximately 95%.
- Inflationary trends in the region compare favorably to national indices.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2005

Governmental Activities

General Fund - Property taxes, benefiting from economic growth and a tax rate increase, will lead the way to an overall 6% projected increase in General Fund revenues. Current year property taxes are projected to increase by over \$1.2 million, or 10%. The City has also implemented a new \$10 annual vehicle tax to replace reduced levels of street funding from the State of North Carolina. The City plans to finance two projects through installment purchase contracts— the \$3.5 million renovation and expansion of the Police Station and the purchase of a fire truck for \$451,000.

Expenditures in the General Fund are expected to rise approximately 6.9 percent to \$29,807,536. Personnel cost in the General Fund will increase by about \$770,000. Salisbury's City Council approved an average two percent merit raise and health insurance premiums will increase by 5%. Also, City Council approved an additional \$384,000 for market adjustments to wages for various classes of employees.

Business – Type Activities

Water and Sewer Fund - The water and sewer rates in the City will increase by 6.41%, primarily to compensate for decrease in water usage by its customers. This decrease in usage is attributable to changes in customers' usage habits that have carried over from the drought in 2002. Also, 2003 had excessive rainfall which led to decrease use of irrigation systems. The additions of new large volume customers including Progress Energy, the Town of China Grove, Town of Landis, and the City of Kannapolis have helped to offset the decreased usage of other customers to some extent, and therefore, has helped to avoid even higher rate increases. General operating expenses will increase by 6% to cover increased personnel costs, and 3% to cover increased costs of material, supplies, and other operating expenses.

Mass Transit Fund – Operating revenues and expenditures for the Mass Transit Fund are not expected to change significantly. The slight increases in personnel and maintenance costs will be offset by increased funding from federal and state grants. The City did budget and will receive four 30-foot buses with 90% of the capital costs being reimbursed by the NC Department of Transportation.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money received. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, City of Salisbury, 132 North Main Street, Salisbury, NC 28144.

A-1
City of Salisbury, North Carolina
Statement of Net Assets
June 30, 2004

	Primary Government			Component
	Governmental	Business-type		Unit
	Activities	Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 6,031,266	\$ 2,358,331	\$ 8,389,597	\$ 115,753
Taxes receivables (net)	578,739	-	578,739	-
Accrued interest receivable on taxes	79,000	-	79,000	-
Accounts receivable (net)	379,678	2,234,085	2,613,763	451
Interest receivable	26,508	8,687	35,195	-
Due from other governments	1,849,366	154,098	2,003,464	-
Inventories	158,628	280,832	439,460	-
Prepaid items	1,958	-	1,958	-
Intangible asset - advance funding of pension obligation	32,578	-	32,578	-
Restricted assets:				
Cash and cash equivalents	-	10,192,574	10,192,574	-
Interest receivable	-	43,339	43,339	-
Due from other governments	-	303,488	303,488	-
Capital assets				
Land, improvements, and construction in progress	3,266,853	12,710,702	15,977,555	-
Other capital assets, net of depreciation	33,942,561	102,521,464	136,464,025	23,742
Total assets	\$ 46,347,135	\$ 130,807,600	\$ 177,154,735	\$ 139,946
LIABILITIES				
Accounts payable and accrued expenses	\$ 2,370,482	\$ 877,217	\$ 3,247,699	\$ 6,174
Unearned revenue	366,342	-	366,342	-
Accrued interest payable	23,482	458,998	482,480	-
Customer deposits	-	416,246	416,246	-
Liabilities to be paid from restricted assets	-	1,030,276	1,030,276	-
Long-term liabilities:	-	-	-	-
Due within one year	618,937	3,213,615	3,832,552	-
Due in more than one year	7,892,900	47,688,365	55,581,265	-
Total liabilities	\$ 11,272,143	\$ 53,684,717	\$ 64,956,860	\$ 6,174
NET ASSETS				
Invested in capital assets, net of related debt	\$ 30,380,102	\$ 62,840,912	\$ 93,221,014	\$ -
Restricted for:				
Capital projects	-	9,509,125	9,509,125	-
Unrestricted	4,694,890	4,772,846	9,467,736	133,772
Total net assets	\$ 35,074,992	\$ 77,122,883	\$ 112,197,875	\$ 133,772

The notes to the financial statements are an integral part of this statement.

A-2

City of Salisbury, North Carolina

Statement of Activities

For the Year Ended June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Unit
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental Activities:								
General government	\$ 5,887,422	\$ 3,009,494	\$ 5,355	\$ -	\$ (2,872,573)	\$ -	\$ (2,872,573)	\$ -
Public safety	10,111,491	414,782	116,787	325,284	(9,254,638)	-	(9,254,638)	-
Transportation	4,869,631	40,219	904,419	169,856	(3,755,137)	-	(3,755,137)	-
Environmental protection	1,619,517	954,506	-	-	(665,011)	-	(665,011)	-
Culture and recreation	2,579,491	236,236	170,950	89,264	(2,083,041)	-	(2,083,041)	-
Community and economic development	2,386,640	389,325	435,322	21,447	(1,540,546)	-	(1,540,546)	-
Education	42,342	-	-	-	(42,342)	-	(42,342)	-
Interest on long-term debt	258,177	-	-	-	(258,177)	-	(258,177)	-
Total governmental activities	\$ 27,754,711	\$ 5,044,562	\$ 1,632,833	\$ 605,851	\$ (20,471,465)	\$ -	\$ (20,471,465)	\$ -
Business-type activities:								
Water and sewer	\$ 16,179,987	\$ 14,484,161	\$ -	\$ 2,821,330	\$ -	\$ 1,125,504	\$ 1,125,504	\$ -
Transit	661,552	64,571	372,506	-	-	(224,475)	(224,475)	-
Total business-type activities	\$ 16,841,539	\$ 14,548,732	\$ 372,506	\$ 2,821,330	\$ -	\$ 901,029	\$ 901,029	\$ -
Total primary government	\$ 44,596,250	\$ 19,593,294	\$ 2,005,339	\$ 3,427,181	\$ (20,471,465)	\$ 901,029	\$ (19,570,436)	\$ -
Component units:								
Downtown Salisbury, Inc.	\$ 340,013	\$ 12,947	\$ 67,750	\$ -	\$ -	\$ -	\$ -	\$ (259,316)
General revenues:								
Taxes:								
Property taxes, levied for general purpose					\$ 12,608,225	\$ -	\$ 12,608,225	\$ 107,888
Sales and other taxes					4,232,748		4,232,748	-
Intergovernmental revenues					2,822,659		2,822,659	
Unrestricted investment earnings					81,428	184,999	266,427	913
Miscellaneous					277,847	1,638,514	1,916,361	14,832
Transfers					(160,282)	160,282	-	-
Total general revenues, special items, and transfers					\$ 19,862,625	\$ 1,983,795	\$ 21,846,420	\$ 123,633
Change in net assets					\$ (608,840)	\$ 2,884,824	\$ 2,275,984	\$ (135,683)
Net assets-beginning					35,683,832	74,238,059	109,921,891	269,455
Net assets-ending					\$ 35,074,992	\$ 77,122,883	\$ 112,197,875	\$ 133,772

The notes to the financial statements are an integral part of this statement.

A-3
City of Salisbury, North Carolina
Balance Sheet
Governmental Funds
June 30, 2004

			Total
	General	Non-Major Funds	Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 5,300,374	\$ 182,265	\$ 5,482,639
Taxes receivable, net	578,739	-	578,739
Accounts receivable	367,799	11,879	379,678
Interest receivable	24,531	-	24,531
Due from other governments	1,840,984	8,382	1,849,366
Due from other fund	360,424	-	360,424
Inventories	158,628	-	158,628
Prepaid items	1,958	-	1,958
	<u>8,633,437</u>	<u>202,526</u>	<u>8,835,963</u>
Total assets			
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,878,423	\$ 20,996	\$ 1,899,419
Due to other funds	-	360,424	360,424
Deferred revenue	945,081	-	945,081
	<u>2,823,504</u>	<u>381,420</u>	<u>3,204,924</u>
Total liabilities			
Fund balances:			
Reserved for:			
Encumbrances	\$ 98,949	\$ -	\$ 98,949
Inventories	158,628	-	158,628
Prepaid items	1,958	-	1,958
State statute	2,593,738	194,155	2,787,893
Unreserved, General Fund	2,956,660	-	2,956,660
Unreserved, reported in:			
Capital Projects Fund	-	(373,049)	(373,049)
	<u>5,809,933</u>	<u>(178,894)</u>	<u>5,631,039</u>
Total fund balances (deficit)			
Total liabilities and fund balances	<u>8,633,437</u>	<u>202,526</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			37,209,414
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Accrued interest receivable from taxes			79,000
Intangible asset - advance funding of pension obligation			32,578
Internal service funds are used by management to charge the costs of certain activities, such as self insurance for health care and workers compensation, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.			79,541
Liabilities for earned but deferred revenues in fund statements.			578,739
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.			(8,535,319)
Net assets of governmental activities			<u>35,074,992</u>

The notes to the financial statements are an integral part of this statement.

City of Salisbury, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 16,749,950	\$ -	\$ 16,749,950
Intergovernmental	4,811,970	407,340	5,219,310
Charges for services	4,362,101	-	4,362,101
Miscellaneous	505,044	389,325	894,369
Total revenues	<u>\$ 26,429,065</u>	<u>\$ 796,665</u>	<u>\$ 27,225,730</u>
EXPENDITURES			
Current:			
General government	\$ 7,784,039	\$ 158,560	\$ 7,942,599
Public safety	9,756,930	338,725	10,095,655
Transportation	3,600,475	-	3,600,475
Environmental protection	1,671,908	-	1,671,908
Culture and recreation	2,559,219	9,155	2,568,374
Community and economic development	1,391,586	983,076	2,374,662
Education	42,342	-	42,342
Debt service:			
Principal	646,750	-	646,750
Interest	250,437	-	250,437
Total expenditures	<u>\$ 27,703,686</u>	<u>\$ 1,489,516</u>	<u>\$ 29,193,202</u>
Deficiency of revenues over expenditures	<u>\$ (1,274,621)</u>	<u>\$ (692,851)</u>	<u>\$ (1,967,472)</u>
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	\$ (160,282)	\$ -	\$ (160,282)
Proceeds from issuance of long-term debt	1,990,500	375,000	2,365,500
Total other financing sources	<u>\$ 1,830,218</u>	<u>\$ 375,000</u>	<u>\$ 2,205,218</u>
Net change in fund balance	\$ 555,597	\$ (317,851)	\$ 237,746
Fund balances-beginning	5,254,336	138,957	5,393,293
Fund balances (deficit)-ending	<u>\$ 5,809,933</u>	<u>\$ (178,894)</u>	<u>\$ 5,631,039</u>

The notes to the financial statements are an integral part of this statement.

City of Salisbury, North Carolina

**Reconciliation of Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 237,746
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Changes in deferred revenue for property tax revenues	63,723
Changes in deferred revenue for franchise tax revenues	(476,290)
Changes in accrued interest receivable on taxes	27,300
Changes in advance funding of pension obligation	32,578
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	3,595,677
Infrastructure contributed by developers is considered a capital contribution for the statements of activities.	168,000
Depreciation is recognized as an expense in the statement of activities.	(2,764,589)
Internal service funds are used by management to charge costs of certain activities, such as self-insurance for health care and workers compensation, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	297,690
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.	
Issuance of long-term debt	(2,365,500)
Repayment of principal on long-term debt	646,750
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(51,127)
Change in accrued interest payable	(7,740)
Loss on disposal of assets	(13,058)
Total changes in net assets of governmental activities	<u>\$ (608,840)</u>

The notes to the financial statements are an integral part of this statement.

A-6

**City of Salisbury, North Carolina
General Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2004**

	General Fund			Variance with
	Original	Final Budget	Actual	Final Budget
	Budget	Final Budget	Actual	Positive
				(Negative)
Revenues:				
Taxes	\$ 16,568,241	\$ 16,568,241	\$ 16,749,950	\$ 181,709
Intergovernmental	4,849,762	5,135,673	4,811,970	(323,703)
Charges for services	4,489,018	4,489,018	4,362,101	(126,917)
Miscellaneous	1,003,722	1,302,149	505,044	(797,105)
Total revenues	<u>\$ 26,910,743</u>	<u>\$ 27,495,081</u>	<u>\$ 26,429,065</u>	<u>\$ (1,066,016)</u>
Expenditures:				
Current:				
General government	\$ 7,440,615	\$ 8,016,615	\$ 7,784,039	\$ 232,576
Public safety	9,826,583	10,156,794	9,756,930	399,864
Transportation	4,646,312	4,160,012	3,600,475	559,537
Environmental protection	1,724,195	1,752,195	1,671,908	80,287
Cultural and recreation	2,507,565	2,636,334	2,559,219	77,115
Community and economic development	1,546,508	1,803,166	1,391,586	411,580
Education	42,342	42,342	42,342	-
Debt service:				
Principal retirement	815,094	651,394	646,750	4,644
Interest and other charges	337,854	252,554	250,437	2,117
Total expenditures	<u>\$ 28,887,068</u>	<u>\$ 29,471,406</u>	<u>\$ 27,703,686</u>	<u>\$ 1,767,720</u>
Deficiency of revenues over expenditures	<u>\$ (1,976,325)</u>	<u>\$ (1,976,325)</u>	<u>\$ (1,274,621)</u>	<u>\$ 701,704</u>
Other financing sources (uses):				
Transfers to other funds	\$ (160,282)	\$ (160,282)	\$ (160,282)	\$ -
Proceeds from installment financing	1,990,500	1,990,500	1,990,500	-
Fund balance appropriated	146,107	146,107	-	(146,107)
Total other financing sources (uses)	<u>\$ 1,976,325</u>	<u>\$ 1,976,325</u>	<u>\$ 1,830,218</u>	<u>\$ (146,107)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 555,597</u>	<u>\$ 555,597</u>
Fund balances, beginning of year			5,254,336	
Fund balances, end of year			<u>\$ 5,809,933</u>	

The notes to the financial statements are an integral part of this statement.

A-7
City of Salisbury, North Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 2,241,617	\$ 116,714	\$ 2,358,331	\$ 548,627
Accounts receivable (net)	2,231,775	2,310	2,234,085	-
Interest receivable	8,223	464	8,687	1,977
Due from other governments	89,099	64,999	154,098	-
Inventories	280,832	-	280,832	-
Total current assets	\$ 4,851,546	\$ 184,487	\$ 5,036,033	\$ 550,604
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	\$ 10,192,574	\$ -	\$ 10,192,574	\$ -
Due from other governments	303,488	-	303,488	-
Interest receivable	43,339	-	43,339	-
Total restricted assets	\$ 10,539,401	\$ -	\$ 10,539,401	\$ -
Capital assets:				
Land	\$ 2,072,067	\$ -	\$ 2,072,067	\$ -
Buildings and improvements	136,935,323	467,924	137,403,247	-
Equipment	6,437,470	754,189	7,191,659	-
Construction in progress	10,638,635	-	10,638,635	-
Accumulated depreciation	(40,861,472)	(1,211,970)	(42,073,442)	-
Net capital assets	\$ 115,222,023	\$ 10,143	\$ 115,232,166	\$ -
Total noncurrent assets	\$ 125,761,424	\$ 10,143	\$ 125,771,567	\$ -
Total assets	\$ 130,612,970	\$ 194,630	\$ 130,807,600	\$ 550,604
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 812,179	\$ 65,038	\$ 877,217	\$ 471,063
Liabilities payable from restricted assets	1,030,276	-	1,030,276	-
Interest payable	458,998	-	458,998	-
Current maturities of long-term debt	3,213,615	-	3,213,615	-
Customer deposits	416,246	-	416,246	-
Total current liabilities	\$ 5,931,314	\$ 65,038	\$ 5,996,352	\$ 471,063
Noncurrent liabilities:				
Bonds payable	\$ 44,617,867	\$ -	\$ 44,617,867	\$ -
Capital leases payable	3,070,498	-	3,070,498	-
Total noncurrent liabilities	\$ 47,688,365	\$ -	\$ 47,688,365	\$ -
Total liabilities	\$ 53,619,679	\$ 65,038	\$ 53,684,717	\$ 471,063
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 62,830,769	\$ 10,143	\$ 62,840,912	\$ -
Restricted	9,509,125	-	9,509,125	-
Unrestricted	4,653,397	119,449	4,772,846	79,541
Net assets of business-type activities	\$ 76,993,291	\$ 129,592	\$ 77,122,883	\$ 79,541
Total liabilities and net assets	\$ 130,612,970	\$ 194,630	\$ 130,807,600	\$ 550,604

The notes to the financial statements are an integral part of this statement.

City of Salisbury, North Carolina

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

For the Year Ended June 30, 2004

	Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 14,484,161	\$ 64,571	\$ 14,548,732	\$ 3,498,244
Water and sewer taps	648,609	-	648,609	-
Other operating revenues	902,563	3,811	906,374	-
Total operating revenues	<u>\$ 16,035,333</u>	<u>\$ 68,382</u>	<u>\$ 16,103,715</u>	<u>\$ 3,498,244</u>
OPERATING EXPENSES				
Management and administration	\$ 3,581,201	\$ 138,362	\$ 3,719,563	\$ 3,205,108
Water resources	1,363,626	-	1,363,626	-
Maintenance and construction	3,377,751	-	3,377,751	-
Wastewater collection and treatment	1,886,360	-	1,886,360	-
Environmental services	487,988	-	487,988	-
Depreciation	3,390,138	7,607	3,397,745	-
Mass transit operations	-	515,583	515,583	-
Total operating expenses	<u>\$ 14,087,064</u>	<u>\$ 661,552</u>	<u>\$ 14,748,616</u>	<u>\$ 3,205,108</u>
Operating income (loss)	<u>\$ 1,948,269</u>	<u>\$ (593,170)</u>	<u>\$ 1,355,099</u>	<u>\$ 293,136</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	\$ 183,329	\$ 1,670	\$ 184,999	\$ 4,554
Interest expense	(1,973,347)	-	(1,973,347)	-
Bond issuance costs	(119,576)	-	(119,576)	-
Proceeds from sale of refunding bonds	83,531	-	83,531	-
Intergovernmental revenues	-	372,506	372,506	-
Total nonoperating revenue (expenses)	<u>\$ (1,826,063)</u>	<u>\$ 374,176</u>	<u>\$ (1,451,887)</u>	<u>\$ 4,554</u>
Income (loss) before contributions and transfers	\$ 122,206	\$ (218,994)	\$ (96,788)	\$ 297,690
Capital contributions	2,821,330	-	2,821,330	-
Transfers from other funds	-	160,282	160,282	-
Change in net assets	\$ 2,943,536	\$ (58,712)	\$ 2,884,824	\$ 297,690
Total net assets - beginning	<u>74,049,755</u>	<u>188,304</u>	<u>74,238,059</u>	<u>(218,149)</u>
Total net assets - ending	<u>\$ 76,993,291</u>	<u>\$ 129,592</u>	<u>\$ 77,122,883</u>	<u>\$ 79,541</u>

The notes to the financial statements are an integral part of this statement.

A-9
City of Salisbury, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water and Sewer Fund	Transit Fund	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 15,024,688	\$ 63,713	\$ 15,088,401	\$ -
Cash received from interfund services provided	-	-	-	3,498,244
Cash paid for goods and services	(7,800,047)	(167,932)	(7,967,979)	(3,136,822)
Cash paid to or on behalf of employees for services	(4,024,268)	(467,451)	(4,491,719)	-
Customer deposits received	211,469	-	211,469	-
Customer deposits returned	(164,113)	-	(164,113)	-
Other receipts	877,708	3,811	881,519	-
Net cash provided (used) by operating activities	<u>\$ 4,125,437</u>	<u>\$ (567,859)</u>	<u>\$ 3,557,578</u>	<u>\$ 361,422</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	\$ -	\$ 160,282	\$ 160,282	\$ -
Intergovernmental revenues	-	369,667	369,667	-
Total cash flows provided by noncapital financing activities	<u>\$ -</u>	<u>\$ 529,949</u>	<u>\$ 529,949</u>	<u>\$ -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	\$ (8,085,355)	\$ -	\$ (8,085,355)	\$ -
Principal paid on bond maturities and equipment contracts	(3,439,954)	-	(3,439,954)	-
Interest paid on bond maturities and equipment contracts	(2,038,017)	-	(2,038,017)	-
Proceeds from sale of refunding bonds	83,531	-	83,531	-
Bond issuance costs	(78,050)	-	(78,050)	-
Capital contributions	2,607,911	-	2,607,911	-
Net cash used by capital and related financing activities	<u>\$ (10,949,934)</u>	<u>\$ -</u>	<u>\$ (10,949,934)</u>	<u>\$ -</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES				
Investment earnings	\$ 204,021	\$ 1,774	\$ 205,795	\$ 3,040
Net increase (decrease) in cash and cash equivalents	\$ (6,620,476)	\$ (36,136)	\$ (6,656,612)	\$ 364,462
Balances-beginning of the year	19,054,667	152,850	19,207,517	184,165
Balances-end of the year	<u>\$ 12,434,191</u>	<u>\$ 116,714</u>	<u>\$ 12,550,905</u>	<u>\$ 548,627</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	<u>\$ 1,948,269</u>	<u>\$ (593,170)</u>	<u>\$ 1,355,099</u>	<u>\$ 293,136</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	\$ 3,390,138	\$ 7,607	\$ 3,397,745	-
Non-cash contributions	(24,855)	-	(24,855)	-
Changes in current assets and liabilities:				
(Increase) decrease in accounts receivable	(108,082)	(858)	(108,940)	-
(Increase) decrease in inventory	(57,708)	-	(57,708)	-
(Increase) decrease in due from other governments	26,130	-	26,130	-
Increase (decrease) in accounts payable and accrued liabilities	(1,095,811)	18,562	(1,077,249)	68,286
Increase in customer deposits	47,356	-	47,356	-
Total adjustments	<u>\$ 2,177,168</u>	<u>\$ 25,311</u>	<u>\$ 2,202,479</u>	<u>\$ 68,286</u>
Net cash provided (used) by operating activities	<u>\$ 4,125,437</u>	<u>\$ (567,859)</u>	<u>\$ 3,557,578</u>	<u>\$ 361,422</u>

The notes to the financial statements are an integral part of this statement.

City of Salisbury, North Carolina
Combining Statement of Net Assets
Fiduciary Funds
June 30, 2004

	Fiduciary Funds	
	Pension Trust	
	Fund	Agency Funds
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 586,350	\$ 59,255
Accounts receivable	-	156,985
Interest receivable	2,439	13
	<u> </u>	<u> </u>
Total assets	<u>\$ 588,789</u>	<u>\$ 216,253</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ -	\$ 216,253
	<u> </u>	<u> </u>
Total liabilities	<u>\$ -</u>	<u>\$ 216,253</u>
<u>NET ASSETS</u>		
Held in trust for participants	<u>\$ 588,789</u>	<u>\$ -</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 588,789</u>	<u>\$ 216,253</u>

The notes to the financial statements are an integral part of this statement.

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City of Salisbury, North Carolina
Statement of Changes in Net Assets
Pension Trust Fund
For the Year Ended June 30, 2004

Additions:	
Employer contributions	\$ 87,743
Investment earnings	<u>6,616</u>
Total additions	<u>\$ 94,359</u>
Deductions:	
Retirement payments	<u>\$ 12,094</u>
Total deductions	<u>\$ 12,094</u>
Net increase	\$ 82,265
Net assets, beginning of year	<u>506,524</u>
Net assets, end of year	<u><u>\$ 588,789</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF SALISBURY, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The accounting policies of the City of Salisbury (City) and its discretely presented component unit conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected board of five city council members. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

Discretely Presented Component Unit

Downtown Salisbury, Inc. was created to serve the interests of merchants and property owners in the downtown Salisbury area. Eight board members, one of whom is appointed by the City Council, govern the Corporation. The Corporation's revenue sources are almost entirely dependent on the City Council's approval of a municipal service district tax levy and a supplemental appropriation as part of the annual budget process. Complete financial statements for the component unit may be obtained from the unit's administrative offices at Downtown Salisbury, Inc., 100 West Innes Street Suite 300, Salisbury, NC 28144.

Related Organization

The Housing Authority of Salisbury's governing board is appointed entirely by the City's Mayor. However, the City has no further accountability for the Housing Authority's operations.

B. Basis of Presentation

Government-wide Statements – The statement of net assets and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid to the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the City's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

NOTES TO THE FINANCIAL STATEMENTS

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation services, parks and recreation, and economic development.

The City reports the following non-major governmental funds:

Special Revenue Fund - Special revenue funds account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City maintains one Special Revenue Fund, a Community Development Fund.

Capital Projects Fund - Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds). North Carolina General Statutes require the establishment of a capital project fund to account for the proceeds of each bond order or order authorizing any debt instrument and for all other resources used for the capital projects financed by the bond or debt instrument proceeds.

The City reports the following major enterprise funds: **Water and Sewer Fund** – used to account for the City's water and sewer operations, and the **Mass Transit Fund** – used to account for the City's mass transit system operations.

The City reports the following other fund types:

Internal Service Funds – Internal service funds are used to account for the financing of goods or services provided by an activity to other departments or funds on a cost-reimbursement basis. The City has two Internal Service Funds: the Workers' Compensation Fund and the Employee Health Care Fund. The City's internal service funds are presented in the proprietary fund financial statements. Because the principal user of the internal service fund is the General Fund, the financial statements of the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public safety, transportation, etc.)

Fiduciary Funds – Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets which are reported using accounting principles similar to proprietary funds. The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension trust fund and agency). Since by definition these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City's Fiduciary Funds consist of one Pension Trust Fund and three Agency Funds. The Pension Trust Fund is used to account for the Law Enforcement Officers' Separation Allowance, a single-employer public employee retirement system for the City's law enforcement officers. The Agency Funds are the Boards and Commissions Fund, the Municipal Service District Fund, and the Town of East Spencer Utilities Fund.

C. Measurement Focus, Basis of Accounting, and Basis of Presentation

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements – The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The

NOTES TO THE FINANCIAL STATEMENTS

government-wide and proprietary funds financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2003 through February 2004 apply to the fiscal year ended June 30, 2004. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2004 because they are intended to finance the City's operations during the 2005 fiscal year.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues.

As permitted by accounting principles generally accepted in the United States of America, the City has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its general government and proprietary operations.

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Special Revenue, and Enterprise funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise Fund Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds.

NOTES TO THE FINANCIAL STATEMENTS

Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the City Council. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the City Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities and Fund Equity

1. Deposits and Investments

All deposits of the City and of Downtown Salisbury, Inc. are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and Downtown Salisbury, Inc. may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and Downtown Salisbury, Inc. may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the City and Downtown Salisbury, Inc. to invest in obligations of the United States or obligations fully guaranteed, both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The City and Downtown Salisbury, Inc.'s investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings investment contracts are reported at cost.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Downtown Salisbury, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the City are classified as restricted assets for the Enterprise Fund because their use is completely restricted for the purpose for which the bonds were originally issued. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values of January 1, 2003. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

NOTES TO THE FINANCIAL STATEMENTS

6. Inventories and Prepaid Items

The inventories of the City are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of parts used to maintain the City's vehicles.

The inventories of the City's Water and Sewer Fund consist of materials and supplies held for subsequent use. The inventories are valued at cost, on a first-in, first-out basis, which approximates market. The costs of these inventories are recorded as expenditures when used rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the City as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: buildings, \$10,000; furniture and equipment, \$5,000; infrastructure, \$100,000; and improvements other than buildings or infrastructure, \$5,000. All land is recorded as a capital asset without regard to any significant value. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2002 consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Lives</u>
Infrastructure	25
Buildings	40
Improvements	40
Vehicles	5
Furniture and equipment	10
Computer equipment	3

Property, plant, and equipment of Downtown Salisbury, Inc. are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Useful Lives</u>
Furniture and equipment	10
Trolleys	7

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while

NOTES TO THE FINANCIAL STATEMENTS

discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

The vacation policy of the City provides for the accumulation of earned vacation leave as follows: police officers, 470 hours; firefighters, 582 hours; and all other employees, 360 hours. Downtown Salisbury, Inc. allows employees to accumulate an unlimited amount of vacation leave. Vacation leave for the City and Downtown Salisbury, Inc. is fully vested when earned. For the City's government-wide and proprietary funds and Downtown Salisbury, Inc., an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and due from other governments that have not been offset by deferred revenues.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts that remain unperformed at year-end.

Reserved for inventories – a portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for prepaid items - portion of total fund balance that has been expended for the benefit of future periods.

Unreserved:

Undesignated – portion of total fund balance available for appropriation that is uncommitted at year-end.

NOTES TO THE FINANCIAL STATEMENTS

F. Revenues, Expenditures, and Expenses

1. Grant Revenue

The City recognizes grant revenue when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements have been met are recorded and reported as deferred revenues.

2. Investment Income

The City recognizes investment income from pooled cash and investments as revenues in the individual funds based on the percentage of a fund's average monthly investment in pooled cash and investments to the total average monthly investment in pooled cash and investments. All investment earnings are allocated and recorded monthly in each individual fund.

3. Inter-fund Transactions

Inter-fund transactions are either for services provided or transfers. Services that are deemed to be reasonably equivalent in value are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs the cost, and then charges the appropriate benefited fund and reduces its related cost as a reimbursement, if material. Transfers within governmental activities and business-type activities are eliminated upon consolidation.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Stewardship, Compliance and Accountability

A. Deficit Fund Balance or Retained Earnings of Individual Funds

The City's Capital Projects Fund has a net deficit of \$373,049. The City has incurred expenses related to the expansion of its Police Department facilities. However, as of June 30, 2004, the planned installment purchase financing had not been completed. These planning and design expenses are being funded through short-term loans from the General Fund.

Note 3. Detail Notes On All Funds

A. Assets

1. Deposits

Total cash and investments were composed as follows:

Cash on hand	\$ 2,540
Cash in demand deposits	100,945
Certificates of Deposit	8,338,296
Investments	10,785,995
	<u>\$ 19,227,776</u>

All deposits of the City and Downtown Salisbury, Inc. are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's and component units' agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are

NOTES TO THE FINANCIAL STATEMENTS

collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the component unit, these deposits are considered to be held by the City's and the components' agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has deposits in banks utilizing both the Dedicated Method and the Pooling Method.

At June 30, 2004, the City's deposits had a carrying amount of \$8,439,241 and a bank balance of \$8,623,162. Of the bank balance, \$703,460 was covered by federal depository insurance and the remainder was covered by collateral held under either the Dedicated Method or the Pooling Method. The carrying amount of deposits and the bank balance for Downtown Salisbury, Inc. was \$115,753, all of which was covered by federal depository insurance.

2. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category A includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category B includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the City's name. Category C includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the City's name. At year end, the City had no investments which would be classified as Category B or C. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the City does not own any identifiable securities, but is a shareholder of a percentage of the fund. At June 30, 2004, Downtown Salisbury, Inc. did not own any investments. At June 30, 2004, the City's investments were as follows:

		Reported	Fair
	Category A	Value	Value
Commercial Paper	\$ 3,471,133	\$ 3,471,133	\$ 3,471,133
U.S. Government Securities	2,470,561	2,470,561	2,470,561
	<u>\$ 5,941,694</u>	\$ 5,941,694	\$ 5,941,694
North Carolina Capital Management Trust:			
Cash Portfolio		4,844,301	4,844,301
		<u>\$ 10,785,995</u>	<u>\$ 10,785,995</u>

3. Receivables - Allowances for Doubtful Accounts

The amounts shown in the statement of net assets for receivables are net of the following allowances for doubtful accounts.

Fund	June 30, 2004
General Fund:	
Taxes receivable	\$ 250,000
Enterprise Funds:	
Utility receivables	<u>52,000</u>
Total	<u>\$ 302,000</u>

NOTES TO THE FINANCIAL STATEMENTS

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2004 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,157,445	\$ -	\$ -	\$ 3,157,445
Construction in progress	-	109,408	-	109,408
Total capital assets not being depreciated	<u>\$ 3,157,445</u>	<u>\$ 109,408</u>	<u>\$ -</u>	<u>\$ 3,266,853</u>
Capital assets being depreciated:				
Buildings	\$ 2,307,684	\$ -	\$ -	\$ 2,307,684
Other improvements	10,203,219	229,613	11,525	10,421,307
Equipment	3,724,309	2,721,039	234,987	6,210,361
Vehicles and motorized equipment	9,644,445	535,617	74,097	10,105,965
Infrastructure	30,522,486	168,000	-	30,690,486
Total capital assets being depreciated	<u>\$ 56,402,143</u>	<u>\$ 3,654,269</u>	<u>\$ 320,609</u>	<u>\$ 59,735,803</u>
Less accumulated depreciation for:				
Buildings	\$ 875,227	\$ 66,097		\$ 941,324
Other improvements	2,705,110	202,636	11,525	2,896,221
Equipment	3,429,461	508,002	228,740	3,708,723
Vehicles and motorized equipment	7,791,519	911,244	67,286	8,635,477
Infrastructure	8,534,887	1,076,610	-	9,611,497
Total accumulated depreciation	<u>\$ 23,336,204</u>	<u>\$ 2,764,589</u>	<u>\$ 307,551</u>	<u>\$ 25,793,242</u>
Total capital assets being depreciated, net	<u>\$ 33,065,939</u>	<u>\$ 889,680</u>	<u>\$ 13,058</u>	<u>\$ 33,942,561</u>
Governmental activity capital assets, net	<u><u>\$ 36,223,384</u></u>	<u><u>\$ 999,088</u></u>	<u><u>\$ 13,058</u></u>	<u><u>\$ 37,209,414</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 618,506
Public safety	574,670
Transportation	1,289,228
Environmental protection	63,742
Cultural and recreational	190,409
Land management and development	28,034
Total depreciation expense	<u><u>\$ 2,764,589</u></u>

NOTES TO THE FINANCIAL STATEMENTS

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities				
Water and Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 2,072,067	\$ -	\$ -	\$ 2,072,067
Construction in progress	30,335,894	6,151,120	25,848,379	10,638,635
Total capital assets not being depreciated	<u>\$ 32,407,961</u>	<u>\$ 6,151,120</u>	<u>\$ 25,848,379</u>	<u>\$ 12,710,702</u>
Capital assets being depreciated:				
Plant and distribution systems	\$ 111,086,944	\$ 25,848,379	\$ -	\$ 136,935,323
Furniture and maintenance equipment	2,485,187	660,986	-	3,146,173
Vehicles and motorized equipment	3,070,869	220,428	-	3,291,297
Total capital assets being depreciated	<u>\$ 116,643,000</u>	<u>\$ 26,729,793</u>	<u>\$ -</u>	<u>\$ 143,372,793</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$ 32,997,865	\$ 2,914,999	\$ -	\$ 35,912,864
Furniture and maintenance equipment	2,153,853	255,692	-	2,409,545
Vehicles and motorized equipment	2,319,616	219,447	-	2,539,063
Total accumulated depreciation	<u>\$ 37,471,334</u>	<u>\$ 3,390,138</u>	<u>\$ -</u>	<u>\$ 40,861,472</u>
Total capital assets being depreciated, net	<u>\$ 79,171,666</u>	<u>\$ 23,339,655</u>	<u>\$ -</u>	<u>\$ 102,511,321</u>
Water and Sewer Fund capital assets, net	<u>\$ 111,579,627</u>	<u>\$ 29,490,775</u>	<u>\$ 25,848,379</u>	<u>\$ 115,222,023</u>
Transit Fund				
Capital assets being depreciated:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	29,057	-	-	29,057
Vehicles and motorized equipment	725,132	-	-	725,132
Total capital assets being depreciated	<u>\$ 1,222,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,222,113</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 467,924	\$ -	\$ -	\$ 467,924
Furniture and maintenance equipment	11,307	7,607	-	18,914
Vehicles and motorized equipment	725,132	-	-	725,132
	<u>\$ 1,204,363</u>	<u>\$ 7,607</u>	<u>\$ -</u>	<u>\$ 1,211,970</u>
Transit Fund capital assets, net	<u>\$ 17,750</u>	<u>\$ (7,607)</u>	<u>\$ -</u>	<u>\$ 10,143</u>
Business-type activities capital assets, net	<u>\$ 111,597,377</u>	<u>\$ 29,483,168</u>	<u>\$ 25,848,379</u>	<u>\$ 115,232,166</u>

Construction commitments

The City has active construction projects as of June 30, 2004. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water and Sewer Treatment Facilities	<u>\$ 10,525,996</u>	<u>\$ 4,008,914</u>

NOTES TO THE FINANCIAL STATEMENTS

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The City of Salisbury contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.64%, respectively, of annual covered payroll. The contribution requirements of members and of the City of Salisbury are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2004, 2003, and 2002 were \$714,372, \$691,652, and \$704,628, respectively. The contributions made by the City equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description

The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the North Carolina General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the General Assembly. The Separation Allowance does not issue separate audited financial statements, but is included in the Comprehensive Annual Financial Report (CAFR) of the City of Salisbury. The City's CAFR includes financial statements and required supplementary information for the Separation Allowance.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2003, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>81</u>
Total	<u>82</u>

2. Summary of Significant Accounting Policies

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

NOTES TO THE FINANCIAL STATEMENTS

Method Used to Value Investments. As noted in Note 1E previously, cash and investments are held in a single central depository with each fund owning a pro-rata share. Therefore, cash and investments are essentially demand deposits and are considered to be cash and cash equivalents. Investments are reported at cost which approximates market.

3. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$87,743, or 3.02% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the General Fund.

The annual required contribution for the current year was determined as part of the December 31, 2003 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Item (b) included an inflation adjustment of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at December 31, 2003 was 27 years.

4. Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 87,696
Interest on net pension obligation	(2,318)
Adjustment to annual required contribution	<u>1,754</u>
Annual pension cost	\$ 87,132
Contributions made	<u>87,743</u>
Decrease in net pension asset	\$ 611
Net pension asset beginning of year	<u>31,967</u>
Net pension asset end of year	<u><u>\$ 32,578</u></u>

3 Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2004	\$87,696	100.70%	\$32,578
6/30/2003	92,754	95.92%	31,967
6/30/2002	86,122	102.01%	35,753

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description: The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy: Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

NOTES TO THE FINANCIAL STATEMENTS

Contributions for the year ended June 30, 2004 were \$184,885, which consisted of \$145,927 from the City and \$38,958 from the law enforcement officers.

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description: The State of North Carolina contributes, on behalf of the City of Salisbury, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy: Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

For the fiscal year ended June 30, 2004, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$27,284 for the 66 employed firemen who perform firefighting duties for the City's fire department.

e. Other Post-employment Benefits

The City of Salisbury has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefits may not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2004, the City made contributions to the State for death benefits of \$17,429. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.11% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

2. Deferred Revenue

As discussed in Note 1C, property taxes receivable that are measurable but not available are recorded as taxes receivable and as deferred revenue. Likewise, prepaid property taxes or privilege licenses have not met the recognition criteria and are recorded as deferred revenue. Other deferred revenue in the General Fund represents grants and donations received for various downtown enhancement projects and the purchase of equipment for the police department. The balance in deferred revenue in the governmental fund statements at year end, including these items, is composed of the following elements:

NOTES TO THE FINANCIAL STATEMENTS

	<u>General Fund</u>
Unearned	
Unspent grants and donations	\$ 307,893
Prepaid property taxes	58,449
Unavailable	
Taxes receivable, net	<u>578,739</u>
Total deferred revenue	<u>\$ 945,081</u>

3. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides general liability coverage to \$1,000,000 as well as \$1,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on real and personal property, including boiler and machinery, in an amount of \$102,598,817. The City also provides coverage for employee dishonesty in the amount of \$100,000 and fidelity insurance of the Finance Director's office for \$100,000. The pool is reinsured through commercial companies for single occurrence claims against property, general liability, and auto liability in excess of \$300,000.

The City also maintains commercial liability insurance of \$1,000,000 for its public officials and \$3,000,000 for law enforcement professional liability. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

In addition, the City currently self-insures an employee health benefits program through a third party administrator. However, the City's exposure is limited to \$60,000 per individual and to 120% of estimated annual aggregate claims. The City also carries an excess workers' compensation policy through a commercial insurer in the amount of \$1,000,000. The City retains a \$300,000 deductible for this coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. The liability for claims is reported in the current liabilities of the internal service funds. Changes in the balances of claims liabilities during the past three years are as follows:

	<u>Year ended June 30, 2002</u>	<u>Year ended June 30, 2003</u>	<u>Year ended June 30, 2004</u>
Unpaid claims, beginning of fiscal year	\$ 325,376	\$ 403,990	\$ 395,460
Incurred claims (including IBNRs)	2,553,335	2,777,841	2,887,730
Claim payments	<u>(2,474,721)</u>	<u>(2,786,371)</u>	<u>(2,824,060)</u>
Unpaid claims, end of fiscal year	<u>\$ 403,990</u>	<u>\$ 395,460</u>	<u>\$ 459,130</u>

An independent review of the City's various risk management activities is conducted annually, and coverage is adjusted accordingly as needed. There have been no reductions in insurance coverage from the prior year.

Downtown Salisbury, Inc., is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The unit has commercial insurance covering property, general liability, and employee health coverage. Claims have not exceeded coverage in any of the past three years.

NOTES TO THE FINANCIAL STATEMENTS

4. Claims, Judgments, and Contingent Liabilities

At June 30, 2004 the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

5. Long-Term Obligations

a. Capital Leases

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at their fair value of \$7,898,494. The future minimum lease payments at June 30, 2003 total \$4,311,276, including \$969,670 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

The future minimum lease obligations as of June 30, 2004 were as follows:

Year Ending June 30,	Capital Leases	
	Principal	Interest
2005	\$ 271,109	\$ 137,071
2006	270,612	126,307
2007	264,190	115,559
2008	260,846	104,983
2009	267,585	94,605
2010-2014	1,315,665	309,285
2015-2019	651,599	78,960
2020-2021	40,000	2,900
	<u>\$ 3,341,606</u>	<u>\$ 969,670</u>

b. Installment Purchases

The City has entered into various installment purchase contracts to finance the acquisition and renovation of various equipment and facilities. These installment purchase contracts are outlined as follows:

Installment purchase contract for capital improvements and facilities renovations from BB&T Leasing Corporation, dated December 29, 1999, payable in twenty semi-annual installments of \$63,332 at an effective interest rate of 4.73%.

Installment purchase contract from Bank of America for construction and capital improvements of facilities, dated December 22, 2000, payable in thirty semi-annual installments consisting of \$33,333 principal plus interest at an effective rate of 5.25%.

Installment purchase contract from F & M Bank for the purchase of real estate, dated February 24, 2003, payable in thirty-six monthly payments of interest only, followed by twenty-two monthly payments of \$7,372 and one final payment of all remaining principal plus accrued interest, which is due in January 2008.

Installment purchase contract from Wachovia Bank and Trust for the purchase of new telecommunications equipment, dated April 12, 2004, payable in eighteen semi-annual installments consisting of \$110,583 principal plus interest at an effective rate of 2.93%.

The future minimum payments of the installment purchases as of June 30, 2004, including \$749,484 of interest are as follows:

NOTES TO THE FINANCIAL STATEMENTS

Year Ending June 30,	Governmental Activities	
	Installment Purchases	
	Principal	Interest
2005	\$ 386,937	\$ 163,679
2006	408,084	148,742
2007	447,174	132,348
2008	1,334,932	100,450
2009	407,316	63,692
2010-2014	1,279,869	135,245
2015-2016	100,000	5,328
	<u>\$ 4,364,312</u>	<u>\$ 749,484</u>

c. General Obligation Indebtedness

The City's general obligation bonds serviced by the governmental funds were issued for the acquisition and improvement of parks and recreation and parking facilities. Those general obligation bonds issued to finance the construction of facilities in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2004 are comprised of the following individual issues:

	<u>Balance June 30, 2004</u>
Serviced by the General Fund:	
\$355,000 Public Improvement Bonds, Series 1995, average rate of 5.28%, issued November 1995, maturing serially to 2006	\$ 65,000
\$3,000,000 Parks and Recreation Bonds, Series 1997, average rate of 4.77%, issued December 1997, maturing serially to 2017	<u>2,400,000</u>
Subtotal	<u>\$ 2,465,000</u>
Serviced by the Water and Sewer Fund:	
\$13,650,000 Water and Sewer Bonds, Series 1993, average rate of 5.28%, issued November 1995, maturing serially to 2015	\$ 560,000
\$700,000 Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	250,000
\$3,250,000 Water Bonds, Series 1998, average rate of 4.40%, issued June 1998, maturing serially to 2017	2,200,000
\$12,100,000 Refunding Bonds, Series 2003, average rate of 3.43%, issued August 2003, maturing serially to 2015	
This amount is net of unamortized issuance cost and interest	<u>10,275,537</u>
Subtotal	<u>\$ 13,285,537</u>
Total General Obligation Indebtedness	<u>\$ 15,750,537</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation indebtedness are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 200,000	\$ 118,400	\$ 1,450,000	\$ 489,578
2006	190,000	108,650	1,440,000	436,115
2007	200,000	99,550	1,405,000	401,052
2008	200,000	90,050	1,330,000	360,915
2009	200,000	80,550	1,265,000	318,128
2010-2014	1,000,000	258,750	6,045,000	958,158
2015-2017	475,000	40,050	1,435,000	75,294
	<u>\$ 2,465,000</u>	<u>\$ 796,000</u>	<u>\$ 14,370,000</u>	<u>\$ 3,039,240</u>

Advance Refunding

On August 12, 2003, the City issued \$12.1 million in general obligation Water and Sewer Refunding Bonds with an interest rate of 3.43% to advance refund \$11.9 million of outstanding Water and Sewer Funds with interest rates ranging from 5.28% to 6.52%. The net proceeds of \$11.9 million were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, as of August 12, 2003, the refunded bonds are considered to be defeased and the liabilities for those bonds were removed from the Water and Sewer Fund.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,183,050. This difference represents bond issuance cost of \$157,772 and the present value of future interest payments to be made by the escrow agent. This difference is reported in the accompanying financial statements, net of the current year's amortization of \$98,587, as a deduction from bonds payable and is being charged to operations through the year 2015, the life of the new debt, which is shorter than the life of the refunded debt, using the straight-line method which approximates the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next twelve years by \$352,806 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$309,359.

d. State Bond Loans

The long-term debt of the City's Enterprise Funds includes the following State Clean Water Bond Loans in the Water and Sewer Fund:

	Balance <u>June 30, 2004</u>
\$5,000,000 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	\$ 3,250,000
\$450,120 State Bond Loan, average rate of 3.43%, issued November 1997 maturing serially to 2017	292,578
\$3,000,000 State Bond Loan, average rate of 2.60%, issued November 1999 maturing serially to 2019	2,400,000
\$9,200,000 State Bond Loan, average rate of 2.60%, issued June 2000 maturing serially to 2020	<u>7,360,000</u>
Total State Bond Loans	<u>\$ 13,302,578</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the City's State Bond Loans are as follows:

Year Ending June 30,	Business-Type Activities	
	State Bond Loans	
	Principal	Interest
2005	\$ 882,506	\$ 375,270
2006	882,506	350,063
2007	882,506	324,857
2008	882,506	299,650
2009	882,506	274,443
2010-2014	4,412,530	994,108
2015-2019	3,867,518	373,282
2020	610,000	15,860
	<u>\$ 13,302,578</u>	<u>\$ 3,007,533</u>

e. Revenue Bonds

The long-term debt of the City's Enterprise Funds includes Revenue Bonds in the Water and Sewer Fund where the City pledges income derived from the Enterprise Fund acquiring on constructing assets with the proceeds to pay debt service. Revenue bonds in the Water and Sewer consist of the following issues:

	Balance June 30, 2004
\$2,040,000 Water and Sewer Revenue Bonds, Series 1998, average rate of 4.78%, issued January 1998, maturing serially to 2018	\$ 1,610,000
\$20,505,000 Water and Sewer Revenue Bonds, Series 2002, average rate of 3.66%, issued May 2002, maturing serially to 2027	
The amount is net of unamortized issuance costs of \$482,741	<u>19,362,259</u>
Total Revenue Bonds	<u>\$ 20,972,259</u>

The future payments of the revenue bonds are as follows:

Year Ending June 30,	Business-Type Activities	
	Revenue Bonds	
	Principal	Interest
2005	\$ 610,000	\$ 1,000,545
2006	630,000	980,534
2007	650,000	958,331
2008	675,000	934,226
2009	700,000	907,728
2010-2014	3,990,000	4,132,575
2015-2019	4,835,000	3,040,327
2020-2024	5,420,000	1,826,000
2025-2027	3,945,000	401,000
	<u>\$ 21,455,000</u>	<u>\$ 14,181,266</u>

The Revenue Bond General Trust Indenture requires that the City must maintain certain debt covenants relating to reporting requirements, annual budgets, and minimum utility funds revenues. Net revenues available for revenue bond debt service cannot be less than one hundred twenty percent (120%) of the long-term debt service requirement for parity indebtedness. The calculations of the City's revenue bond coverage for the last three years are as follows:

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2002	\$ 14,401,251	\$ 8,934,754	\$ 5,466,497	\$ 952,506	\$ 620,085	\$ 1,572,591	347.61%
2003	15,297,190	10,022,035	5,275,155	1,107,506	1,297,994	2,405,500	219.30%
2004	15,756,122	10,696,926	5,059,196	1,472,506	1,420,340	2,892,846	174.89%

(1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.

(2) Total operating expenses exclusive of depreciation.

(3) Parity debt includes revenue bonds and N. C. State Clean Water Bonds only.

f. HUD Section 108 Loan

The City borrowed funds on loan from the U. S. Department of Housing and Urban Development pursuant to Section 108 of Title I of the Community Development Act of 1974. The loan was used to renovate two historic structures to form the new Park Avenue Community Center. The City borrowed a total of \$596,000 under this loan. This Section 108 loan is serviced by the City's Special Revenue Fund.

Annual debt service requirements to maturity for the City's HUD Section 108 Loan are as follows:

Year Ending June 30,	Governmental Activities HUD Section 108 Loan	
	Principal	Interest
2005	\$ 32,000	\$ 25,305
2006	32,000	24,833
2007	32,000	24,169
2008	32,000	23,308
2009	32,000	22,272
2010-2014	160,000	91,840
2015-2019	160,000	53,180
2020-2023	116,000	11,264
	<u>\$ 596,000</u>	<u>\$ 276,171</u>

g. Changes in Long-Term Liabilities

	June 30,2003	Additions	Retirements	Change in Unamortized Costs	June 30,2004	Current Portion of Balance
Governmental Activities						
General obligation bonds	\$ 2,645,000	\$ -	\$ 180,000	\$ -	\$ 2,465,000	\$ 200,000
Installment purchases	2,840,562	1,990,500	466,750	-	4,364,312	386,937
Section 108 loan	221,000	375,000	-	-	596,000	32,000
Compensated absences	1,035,398	51,127	-	-	1,086,525	-
	<u>\$ 6,741,960</u>	<u>\$ 2,416,627</u>	<u>\$ 646,750</u>	<u>\$ -</u>	<u>\$ 8,511,837</u>	<u>\$ 618,937</u>
Business-type activities						
General obligation bonds	\$ 14,805,000	\$ 12,100,000	\$ 12,535,000	\$ (1,084,463)	\$ 13,285,537	\$ 1,450,000
Revenue bonds	21,541,269	-	590,000	20,990	20,972,259	610,000
State loans	14,185,084	-	882,506	-	13,302,578	882,506
Capital leases	3,611,283	-	269,677	-	3,341,606	271,109
	<u>\$ 54,142,636</u>	<u>\$ 12,100,000</u>	<u>\$ 14,277,183</u>	<u>\$ (1,063,473)</u>	<u>\$ 50,901,980</u>	<u>\$ 3,213,615</u>
Total	<u>\$ 60,884,596</u>	<u>\$ 14,516,627</u>	<u>\$ 14,923,933</u>	<u>\$ (1,063,473)</u>	<u>\$ 59,413,817</u>	<u>\$ 3,832,552</u>

NOTES TO THE FINANCIAL STATEMENTS

6. Accounts Payable

Accounts payable for the governmental activities and the business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 1,427,924	\$ 396,958
Accrued payroll and payroll liabilities	902,022	480,259
Other accrued liabilities	<u>40,536</u>	<u>-</u>
	<u>\$ 2,370,482</u>	<u>\$ 877,217</u>

C. Revenues, Expenditures and Expenses

1. On-Behalf of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2004, the City of Salisbury has recognized on-behalf of payments for pension contributions made by the state as a revenue and an expenditure of \$21,685 for the 66 employed firefighters who perform firefighting duties for the City's fire department. The employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Note 4. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2004, the City reported revenues and expenditures for the payments of \$56,025 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2004. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

Note 5. Commitments and Contingencies

The City participates in a number of federal and State of North Carolina awards. For the fiscal year ended June 30, 2004, these awards were subject to audit in accordance with *Government Auditing Standards* and the provisions of OMB Circular A-133 and the State Single Audit Implementation Act. The amounts, if any, of expenditures which may be disallowed by the granting agencies resulting from this and other audits cannot be determined at this time, although the City expects they would be immaterial.

Note 6. Change in Accounting Estimate

During the fiscal year ended June 30, 2004, the State of North Carolina changed the distribution method for local option sales taxes that it collects on behalf of local governments. These taxes are now distributed on a monthly rather than quarterly basis. Distribution of taxes on sales for the month of June 2004 is scheduled for September 15, 2004.

In accordance with GASB Statement No. 33, all of these items are considered to be revenues as of June 30, 2004. The City has decided to consider revenues to be available for payment of current year-end liabilities

NOTES TO THE FINANCIAL STATEMENTS

if collected within 90 days after year-end, other than property taxes. The City had previously considered only revenues collected within 60 days of year-end as available.

Management's estimate of sales taxes has changed to more accurately reflect all amounts due to the City through June 30, 2004. The September 15, 2004 distribution of these taxes are included in the estimate of sales taxes receivable and recognized as revenues for the 2004 fiscal year. If this policy had been in effect for the 2003 fiscal year, ending net assets of the Governmental Activities would have been \$35,902,401 and fund balance of the General Fund would have been \$5,472,905, which is \$218,569 higher than was previously reported.

Note 7. Pronouncements Issued But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2004 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the City.

- GASB Statement Number 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries."
- GASB Statement Number 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans."
- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

Additionally, the Governmental Accounting Standards Board issued Statement Number 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement Number 3" and Statement Number 44, "Economic Condition Reporting: The Statistical Section" which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a comprehensive annual financial report (CAFR).

Required Supplemental Financial Data



CITY OF SALISBURY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

Last Six Fiscal Years

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Projected Unit Credit	(3) Unfunded AAL (UAAL) (2) - (1)	Funded Ratio (1) / (2)	(4) Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) / (4)
2003	\$ 543,886	\$ 1,185,007	\$ 641,121	45.90%	\$ 2,980,664	21.51%
2002	462,990	982,204	519,214	47.14%	2,715,519	19.12%
2001	382,392	944,593	562,201	40.48%	2,958,255	19.00%
2000	315,640	862,184	546,544	36.61%	2,793,421	19.57%
1999	266,673	456,933	190,260	58.36%	2,434,327	7.82%
1998	222,945	448,747	225,802	49.68%	2,404,793	9.39%

CITY OF SALISBURY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Six Fiscal Years

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2003	\$ 93,425	95%
2002	86,797	102
2001	47,368	118
2000	49,733	112
1999	51,401	104
1998	46,376	115

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2003
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	27 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	7.25%
Projected salary increases*	5.9% - 9.8%
* Includes inflation at	3.75%
Cost of living adjustments	N/A